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UNCLAS SECTION 01 OF 02 ANTANANARIVO 000524

SIPDIS
SENSITIVE

STATE FOR AF/EPS AND AF/E - MBEYZEROV
STATE FOR EB/IPE - JENNIFER BOGER
USDOC FOR ITA/MAC/OIPR - CASSIE PETERS
USDOC FOR BECKY ERKUL - DESK OFFICER
TREASURY FOR FBOYE

E.O. 12958: N/A
TAGS: [ECON](#) [ETRD](#) [KIPR](#) [MA](#)
SUBJECT: MADAGASCAR'S FLAWED BUDGET PROCESS

REF: A) ANTAN 326
B) ANTAN 419

11. (SBU) SUMMARY: The National Assembly of the Republic of Madagascar passed a supplemental budget to pay off arrears and to address the rising costs of food and fuel on the local population (REF A). The supplemental budget is financed by higher-than-expected local tax revenues as well as an influx of additional donor funds not originally programmed in the 2008 budget. While it is a positive sign that Madagascar has been successful in improving revenue collections, the supplemental budget also reveals many continued weaknesses in its system of public financial management. It also suggests a budding rivalry between the Ministry of Finance and Budget and the Office of the Prime Minister. END SUMMARY.

PAYING ARREARS OR PROTECTING THE VULNERABLE?

12. (SBU) The documents prepared by the Ministry of Finance and Budget, presented to the government and ultimately to the Parliament, show a lack of attention to detail. In particular there are certain figures that do not properly sum together in the various schedules presented. In addition there is little coherence between the schedules presented and the narrative included. This lack of coherence may be a result of an emerging rivalry for control over the budget process and communication of financial issues between the office of the Minister of Finance and Budget and the Prime Minister.

13. (SBU) Based on inconsistencies between the language in the narrative and the associated supplemental budget law, it would appear they were drafted by two separate parties. For example, the narrative emphasizes the current rise in food prices on the international markets and higher world petroleum prices as a reason for the need for the increases. However, the detail of the budget documents show most increased expenditures can be attributed to satisfying arrears to a variety of suppliers to the government for past goods and services provided. Those expenditures can and will occur in a very short period of time; the other measures taken to ease the cost of higher food and petroleum prices, by contrast, will almost certainly be put in place over a long period of time. In this case the supplemental budget, while allocating increased appropriations to some sincere positive new programs, is really more an opportunity to square the books for past mismanagement of finances. It is on this point that the narrative may have been prepared by the Office of the Prime Minister to control the public message of the supplemental budget rather than by the Minister of Finance and Budget.

¶4. (SBU) From a political angle, the production of the supplemental budget coincided with the end of a series of "Donor Roundtables on Financing the MAP (Madagascar Action Plan)". This process also suggests the Prime Minister's office is attempting to consolidate control over the budget by establishing within its office a sort of donor funds coordination group (REF B).

BUDGET DETAILS - IMPACT OF THE SUPPLEMENTAL

¶5. (U) According to the narrative accompanying the supplemental budget, the need for adjustments to the budget is the result of changes from both the external and internal economic environment. Externally, the increase in prices for oil in the international market and the recent price shocks to the market for basic foodstuffs has led to higher than expected inflation (currently estimated at 10 percent annually compared to seven percent in the initial budget for 2008). Internally the impact of cyclones FAME and IVAN on agricultural production, combined with the external effects of the surge in oil prices, has resulted in lower economic growth than previously anticipated (7.0 percent compared to 7.3 percent). Rising fuel prices has had a dual, contradictory impact on public finances. The recent price increases raises revenue earned from customs duties and taxes assessed on petroleum products; however, at the same time it increases the government's budget needs for spending in this category to carry out its operations.

¶6. (U) The supplemental budget reflects an increase in estimated revenues of 154.4 billion MGA (USD 98.2 million), from higher tax collections (USD 66.2 million) and donor funds (USD 32 million). The government decided through this supplemental budget to create an exemption from the value added tax (VAT) on rice and lamp oil as

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well as a customs tariff reduction on agricultural equipment which presumably have a minor fiscal impact incorporated into the revised revenue estimates. The financial impact of these changes is only assumed to be factored into the new revenue estimates; no explicit explanation of fiscal impact is contained in the documents prepared by the Ministry of Finance and Budget. The purpose of these exemptions is to relieve the impact of higher food prices and petroleum prices on the population.

¶7. (U) The supplemental budget increases the budget for public expenditures by 144.6 billion MGA (USD 92 million). However, the breakdown of operations and investment allocations reported are not consistent. Narratives and budget tables released do not sum. Priority spending items include a reported USD 10 million investment in the national airline Air Madagascar. Arrears payments are also budgeted to the national electric and water company (JIRAMA), the national telephone company (TELMA), and to vendors who provided services in preparation for the Indian Ocean Games in August of ¶2007. New operating expenditures will also provide subsidies to the urban transportation sector, off-season rice production efforts, school nutrition programs, and labor-intensive public works. An allocation was also created to fund preparations for hosting the African Union Summit in the summer of 2009.

¶8. (U) All new unrestricted donor funds (USD 32 million) will reportedly be allocated to investment, including new public works projects as well as expenditures in the energy sector. This account will also reportedly include arrears payments on VAT reimbursement for investment projects.

¶9. (U) According to the Ministry of Finance, the supplemental budget results in a net decrease in the budget deficit, from 4.9 percent to 4.4 percent of GDP. Tax collections will rise to 12.2 percent of GDP and grants and donations from foreign sources to 4.9 percent of GDP. Total expenditures as a percent of GDP will increase by 0.2 percentage points from 20.9 percent to 21.1 percent. Post cannot confirm these estimates given inadequate data reported.

ALREADY FALLING BEHIND FOR NEXT YEAR

¶10. (SBU) The budget process for the 2009 calendar year has not yet begun in practical terms for the Government of Madagascar. It would appear that "Donor Roundtable" meetings and other unidentified reasons have led to a delay in the start of this process. The Donor Roundtable was designed to coordinate with donors on their long-term commitments to the country and was organized by the Prime Minister but has instead evolved into a sort of quasi-budget planning exercise which has removed from the Minister of Finance his role in organizing and developing the 2009 budget process. The result is that the 2009 budget will be developed through a hurried and non-consultative process if it is to be delivered to parliament by the October 31 constitutional deadline. If this is the case the budget document and financial plan for 2009 will be of inferior quality to the 2008 budget which was prepared in a more consultative method.

¶11. (SBU) COMMENT. It is difficult reading the tea leaves of Malagasy intra-governmental rivalry. It is not clear, for example, if the Prime Minister is trying to usurp the budget process, or simply control the message and manage relations with the international donors. It is not a bad thing to correct past mismanagement by clearing arrears, but a different explanation must be sought when those arrears -- and that mismanagement -- have never been openly acknowledged. END COMMENT.

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